Another airline crisis—the case of Air New Zealand

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Air New Zealand has joined the growing list of airlines around the world that have either collapsed or are on the brink. The country's Labour-led government was forced to step in last month with a $NZ885 million rescue package to prevent the airline being dragged under by the failure of its Australian subsidiary Ansett. Having purchased an 83 percent stake in Air NZ, the government is now engaged in extensively restructuring the airline in a bid to keep it afloat.

Prime Minister Helen Clark argued that the move was essential to the national interest. A national carrier was needed, she said, to ensure a measure of control and certainty over such vital economic activities as tourism, overseas trade and domestic and international travel. The country's other main airline, Qantas New Zealand, a privately-owned local franchise of the Australian carrier Qantas, collapsed in April with the loss of 1,100 jobs and debts of over $NZ20 million.

But while the Labour government acted to defend these commercial interests, the bailout was at the expense of the jobs, rights and conditions of thousands of airline workers—in both New Zealand and Australia. In order for the deal to proceed, government negotiators sought the approval of Ansett's creditor-appointed administrator for Air NZ to present a package to Ansett that would absolve the former parent company of all liabilities to 16,000 retrenched Ansett workers.

Accordingly, an $A150 million settlement payment was approved by the administrator and endorsed by the Australian courts. The payout's purpose was not to partially fund the $868 million in outstanding entitlements owed to Ansett workers, but to keep a drastically scaled-down Ansett—Ansett Mark II—flying. In return for the Air NZ payment, the administrator agreed to forgo all inter-company debts and any further claims against Air NZ.

In New Zealand, the government's newly-installed board met in early October and immediately approved a program of job cuts and service rationalisations. Of the airline's 9,000 employees, between 800 and 1,000 are to lose their jobs, beginning with 90 engineers at the jet engine servicing centre in Christchurch, which is jointly owned by Air NZ and Pratt and Whitney. The axe has been taken to a number of international routes, in particular some of the US and trans-Tasman services to Australia, with fare increases foreshadowed for many remaining services. Pay cuts for the remaining staff have begun with average salary reductions of 15 percent at executive level.

Finance Minister Michael Cullen made clear that the government did not intend to be the airline's "long-term owner". The government plans to maintain its control long enough to restore its profitability then sell it off to big business.

Labour sold off the state-owned airline when it was in power between 1984 and 1990, while it was seeking to establish an international reputation for free market reform. In the face of widespread public hostility, the government repudiated an explicit promise at the 1987 elections and privatised Air NZ in 1989.

A consortium led by Qantas and Brierley Investments, a local merchant banker known for asset-stripping, won the bidding and took control of the airline for $NZ660 million. Despite boasts by Stan Roger, the cabinet minister responsible for the sale, that the government had received a "good price", the company's first CEO later derisively described the amount as equivalent to "less than three jumbos".

Air NZ's fate over the last decade has been conditioned by its difficulty in competing in a global market dominated by large international carriers and low-cost budget operators. Always at a disadvantage because of its tiny domestic base, the airline has been further hit by the slide in the NZ dollar to under US50 cents, which has led to high prices for fuel, aircraft and spare parts.

In the early 1990s, Air NZ sought to establish a base of operations in Australia as a means of breaking into the growing tourism trade, particularly between Australia and New Zealand, Asia and the US. The company, along with the New Zealand government, lobbied hard for an "open skies" agreement between the two countries to give Air NZ access to Australian domestic routes. Inter-government negotiations were completed in November 1994, and a deal was about to be signed. At the last moment, however, the Australian government, under pressure from Qantas, reneged.

As a result, Air NZ had to try to buy its way into Australia. The only available door was Ansett. The existing owners of Ansett—News Corp and TNT—were looking to sell after having starved the airline of investment for years. In 1996, TNT sold its half share to Air NZ for $A325 million. News Ltd, however, kept control of Ansett's management group, frustrating Air NZ from exerting any significant influence.

Air NZ finally bought the remaining half of Ansett last year when News Ltd decided to offload its shares, but not without a dogfight with Singapore Airlines—the Australian government's preferred bidder. Air NZ ended up paying $NZ744 million for the shares. Chairman Selwyn Cushing described the purchase as a "good deal" but the price was well above what the airline's aging fleet and declining market share was actually worth. Under pressure from Singapore Airlines, the Air NZ board concluded the deal without conducting the usual "due diligence" examination of Ansett's books.

Ansett's accumulated problems were quickly exposed when systematic maintenance problems forced Australian safety authorities to ground Ansett's planes on two occasions, last Christmas and Easter, costing millions of dollars in lost revenue and irrevocably damaging its reputation. Richard Branson's Virgin Blue was also undercutting Ansett on the prime inter-city trunk routes. By June, reports began filtering out that the company was losing over $NZ1.3 million a day.

A series of increasingly desperate rescue packages, which are now the subject of claims and counter-claims, were negotiated to try to raise the capital needed to save Ansett, then Air NZ. In June, Singapore Airlines proposed raising its stake in Air NZ from 25 to 49 percent and investing $650 million in the company, but was prevented from doing so by New Zealand government restrictions on foreign ownership.

Between July and September, various proposals to save the airline fell apart. The Australian government, motivated by fears of Singapore Airlines gaining a dominant foothold in the Australasian market, pressured its New Zealand counterpart to consider a proposal from Qantas Australia. It was considered for two days then rejected. At another point, the Air NZ board decided that Ansett's salvation lay in buying out Virgin Blue. Virgin firmly declined the overtures, reportedly in part because of "obstruction" by Singapore Airlines.

On September 12, Air NZ decided to divest itself of Ansett by placing it into "voluntary" administration. It was New Zealand's biggest corporate failure, with losses of $1.3 billion. As the Ansett crisis became increasingly acute and with Air NZ on the brink of being dragged down, no private investors, including the company's existing major shareholders, Singapore Airlines and Brierley, were prepared to save the airline. The government stepped in, declaring its solution to be the "only game in town" and threatening liquidation unless the shareholders backed the plan.

For their part, the private investors were more than happy to be rid of an unprofitable company on the brink of collapse. A board representative for Brierley Investments, former National Party MP Philip Burdon, told Radio NZ that the company did not see owning an airline as "part of its long-term strategic ambitions". All it had wanted with its investment was to "add value" and then "exit".

In Australia and New Zealand, the trade unions were instrumental in pushing through the deal and heading off any potential opposition from workers whose jobs, pay and conditions were under threat. Moreover, on both sides of the Tasman, they stirred up nationalist sentiment and outright chauvinism to divert the attention of their members and get agreement on the bailout.

In Australia, the ACTU assisted in the carve-up of Ansett while keeping the laid-off employees engaged in limited protest action. It played a key role in insisting that the entire $150 million from Air NZ be handed over to Ansett Mark II, at the expense of workers' entitlements. The unions joined the nationalist campaign in the media, which depicted "New Zealand management" as being responsible for Ansett's failure.

The New Zealand Council of Trade Unions (CTU) insisted that neither Australian nor New Zealand workers should do anything to jeopardise the viability of Air NZ. In late September with Air NZ shares in free-fall, Engineers' Union secretary Andrew Little told employees there was "no need for panic". His advice was "for people to carry on as normal". The unions advanced no strategy to defend the interests of workers.

On September 22, Little and CTU president Ross Wilson flew to Australia to assist their counterparts in defusing and sidetracking the anger of Ansett workers. At rallies in Melbourne and Sydney, the New Zealand union leaders told airline workers that the only way they would get their entitlements was for Air NZ to "keep flying". Wilson stressed that the airline's future depended on "the support and understanding" of workers on both sides of the Tasman. He was drowned out with loud booing from 3,000 assembled workers.

The CTU then endorsed the New Zealand government's bailout. Omitting any reference to the impending job losses, CTU secretary Paul Goulter issued an effusive statement saying the plan was "good news" for Air NZ's 9,000 staff. He urged employees to accept the deal because "our flag-carrying airline is central to our national interest and vital to our national economy".

Goulter was echoing the concerns of big business that the Air NZ collapse would have a drastic impact on the country's economic reputation. Air NZ is one of a handful of "international" companies in New Zealand and was seen as a model for others seeking to globalise their operations.

Even now, it is not clear that the government rescue package will succeed. Air NZ's books are currently being put through a due diligence process, which could reveal that the injection of $885 million is insufficient. The airline's position remains precarious. It has just posted an operating loss of $NZ52 million for the September quarter, with total losses including commitments to Ansett of $439 million. Its shares are at 29 cents—a fraction of their former value—and it faces a deepening slump in international air travel.